

STATE OF MASSACHUSETTS
SFAS No. 106 Incremental Cost
TOTAL OPEB COST

SECTION 2.1
APPENDIX C
WORKPAPER OPEB
PAGE 13 OF 23

	Interstate Amount	Percent Common Line	Common Line Amount	Percent Traffic Sensitive	Traffic Sensitive Amount	Percent Special Access	Special Access Amount	Percent Inter- exchange	Inter- exchange Amount
6110 Network Support	56,455	22.4216%	12,658	60.9638%	34,417	16.6146%	9,380		0
6120 Gen'l Support	361,748	22.4216%	81,110	60.9638%	220,535	16.6146%	60,103		0
6210 & 6220 CO Switching & Operator Systems	1,646,955	15.0375%	247,661	72.5705%	1,195,203	12.3920%	204,091		0
6230 CO Transmission	1,152,288	15.0375%	173,275	72.5705%	836,221	12.3920%	142,792		0
6310 Info Orig/Term	670,600	99.8640%	669,688	0.0000%	0	0.1360%	912		0
6410 Cable & Wire Facilities	4,570,613	62.1745%	2,841,756	24.0010%	1,096,993	13.8245%	631,864		0
6510 Other Prop Plant & Equip Exp	(5,301)	43.7425%	(2,319)	44.7052%	(2,370)	11.5523%	(612)		0
6530 Network Operations	4,157,358	44.0808%	1,832,596	43.9626%	1,827,682	11.9566%	497,079		0
6560 Depreciation Exp	148,547	34.2735%	50,912	53.0177%	78,756	12.7088%	18,878		0
6610 Marketing	1,276,496	41.4372%	528,944	46.0857%	588,282	12.4772%	159,271		0
6621 & 6622 Operator Services	1,125,654	0.0000%	0	100.0000%	1,125,654	0.0000%	0		0
6623.1 Customer Accounting	50,367	90.7278%	45,697	7.2782%	3,666	1.9940%	1,004		0
6623.2 Business Office	1,190,872	45.6287%	543,379	28.2774%	336,748	26.0939%	310,745		0
6623.3 -.8 Customer Services -- Other	50,967	29.4427%	15,006	57.8339%	29,476	12.7234%	6,485		0
6710 Exec & Planning	168,116	38.7301%	65,112	48.2736%	81,156	12.9963%	21,849		0
6720 Gen'l & Admin	(8,696,449)	38.7301%	(3,368,144)	48.2736%	(4,198,089)	12.9963%	(1,130,217)		0
Total Operating Expense	7,925,285		3,737,333		3,254,330		933,623		0
RATE BASE									
TPIS	2,094,991	41.0836%	860,698	46.6641%	977,609	12.2523%	256,685		0
Accumulated Depreciation	72,953	45.2942%	33,044	43.4849%	31,724	11.2209%	8,186		0
OPEB Liability	6,112,515	41.1890%	2,517,684	46.6207%	2,849,697	12.1904%	745,140		0
Accumulated Deferred Taxes	(1,679,751)	41.1890%	(691,872)	46.6207%	(783,111)	12.1904%	(204,768)		0
Net Rate Base	(2,410,726)		(998,157)		(1,120,700)		(291,873)		0
Gross Receipts and Income Tax Calculation									
Rate Base	(2,410,726)		(998,157)		(1,120,700)		(291,873)		0
Rate of Return	11.25%		11.25%		11.25%		11.25%		11.25%
Return on Rate Base	(271,207)		(112,293)		(126,079)		(32,836)		0
Revenue Conversion (Rate Base)	61.710%	(439,486)	(181,969)		(204,309)		(53,210)		0
Gross Receipt Tax (Rate Base)	0.00%	0	0		0		0		0
State Income Tax (Rate Base)	6.50%	(28,567)	(11,828)		(13,280)		(3,459)		0
Federal Income Tax (Rate Base)	34.00%	(139,713)	(57,848)		(64,950)		(16,915)		0
Expenses		7,925,285	3,737,333		3,254,330		933,623		0
Earning Effect (Exp)	61.710%	4,890,693	2,306,308		2,008,247		576,139		0
Revenue Conversion (Exp)	61.710%	7,925,285	3,737,333		3,254,330		933,623		0
Gross Receipt Tax (Exp)	0.00%	0	0		0		0		0
State Income Tax (Exp)	6.50%	515,144	242,927		211,531		60,686		0
Federal Income Tax (Exp)	34.00%	2,519,448	1,188,098		1,034,552		296,799		0
Total Revenue Requirement		7,485,799	3,555,364		3,050,021		880,413		0
Times Godwins	84.80%	6,347,957	3,014,948		2,586,418		746,590		0
New TS % of TS + SA Baskets	29.41%				New Traffic Sensitive Amount		Trunking Amount		
TK % of TS + SA Baskets	70.59%								
Recasted Revenue Requirement		6,347,957	3,014,948		980,251		2,352,757		0

SECTION 2.1
APPENDIX C
WORKPAPER OPEB
PAGE 14 OF 23

STATE OF NEW HAMPSHIRE
EXG-1 FOR SFAS 106
EFFECT OF TOTAL OPEB

REVENUE EFFECT	Interstate	Common Line	Traffic Sensitive	Special Access	Inter- exchange
Depreciation Expense	32,628	14,948	14,392	3,287	0
Expense Less Depreciation	1,196,042	680,254	429,080	86,707	0
Taxes Less FIT	(5,241)	(2,653)	(2,073)	(515)	0
Net Return	(39,779)	(20,135)	(15,736)	(3,909)	0
FIT	(20,492)	(10,373)	(8,107)	(2,014)	0
Uncollectible Revenue & Other Adj	0	0	0	0	0
Revenue Effect	1,163,158	662,041	417,556	83,556	0
Revenue Effect Adjusted by Godwins Factor of 84.8%	986,354	561,411	354,087	70,856	0
			New Traffic Sensitive	Trunking	
Recasted Revenue Effect	986,354	561,411	166,310	258,633	0
Additional Annual Revenue Effect	815,843	377,513	171,820	266,510	0
Make-whole Revenue Effect	815,843	377,513	171,820	266,510	0
Net Revenue Effect	1,631,686	755,026	343,640	533,020	0
RATE BASE					
Total Plant in Service	435,552	218,098	173,799	43,655	0
Other Rate Base Items	(1,022,781)	(514,823)	(406,366)	(101,592)	0
Depreciation Reserve	16,264	8,038	6,593	1,633	0
Accum. Deferred Inc. Tax	(249,899)	(125,788)	(99,289)	(24,822)	0
Net Rate Base	(353,594)	(178,974)	(139,871)	(34,748)	0

STATE OF NEW HAMPSHIRE
YEAR 1993

SECTION 2.1
APPENDIX C
WORKPAPER OPEB
PAGE 15 OF 23

SFAS 106 Cost (Total OPEB) 13,708,592
Pay As You Go 6,691,035
Other Funding
Liability At Year End 7,017,557
Wage % 9.585%
PAYG % 9.96%

	Benefits Clearing Factor	SFAS 106 Benefits Cleared	Pay As You Go	New Hampshire Incremental Cost	Percent Nonreg	Nonreg Amount	Amount Subject to Separations	Interstate Access Factor	Interstate Access Amount
6110 Network Support	0.3700%	50,722		50,722	0.9883%	501	50,221	29.2573%	14,693
6120 Gen'l Support	1.6000%	219,337		219,337	2.1626%	4,743	214,594	29.2573%	62,784
6210 & 6220 CO Switching & Operator Systems	5.6000%	767,681		767,681	0.0082%	63	767,618	33.8229%	259,631
6230 CO Transmission	3.9800%	545,602		545,602	0.0000%	0	545,602	33.8229%	184,538
6310 Info Orig/Term	5.2100%	714,218		714,218	40.3368%	288,093	426,125	27.2472%	116,107
6410 Cable & Wire Facilities	16.8500%	2,309,898		2,309,898	0.0000%	0	2,309,898	30.3529%	701,121
6510 Other Prop Plant & Equip Exp	0.0000%	0		0	0.0000%	0	0	30.7359%	0
6530 Network Operations	16.1800%	2,218,050		2,218,050	1.8946%	42,023	2,176,027	31.7630%	691,171
6560 Depreciation Exp	0.0000%	0		101,625	0.2003%	204	101,421	32.1704%	32,628
6610 Marketing	8.4700%	1,161,118		1,161,118	1.9006%	22,068	1,139,050	29.1552%	332,092
6621 & 6622 Operator Services	7.1600%	981,535		981,535	0.0000%	0	981,535	31.5270%	309,449
6623.1 Customer Accounting	1.3860%	189,996		189,996	1.4852%	2,822	187,174	5.1649%	9,667
6623.2 Business Office	10.4225%	1,428,772		1,428,772	3.6333%	51,912	1,376,860	14.6044%	201,082
6623.3 - .8 Customer Services -- Other	0.8316%	113,998		113,998	0.1898%	216	113,781	15.1899%	17,283
6710 Exec & Planning	1.0300%	141,198		141,198	1.8395%	2,597	138,601	26.9891%	37,407
6720 Gen'l & Admin	0.8200%	112,410	6,691,035	(6,578,624)	1.9446%	(127,928)	(6,450,696)	26.9891%	(1,740,985)
Total Operating Expense	79.9100%	10,954,536	6,691,035	4,365,126		287,314	4,077,811		1,228,670
				Average Amount					
RATE BASE				1,377,028	0.1904%	2,622	1,374,406	31.6902%	435,552
TPIS	20.0900%	2,754,056		50,812	0.1070%	54	50,758	32.0423%	16,264
Accumulated Depreciation				3,508,779	0.0000%	0	3,508,779	29.1492%	1,022,781
OPEB Liability				(857,311)	0.0000%	0	(857,311)	29.1492%	(249,899)
Accumulated Deferred Taxes				(1,325,252)		2,567	(1,327,819)		(353,594)
Net Rate Base									

STATE OF NEW HAMPSHIRE
SFAS No. 106 Incremental Cost
TOTAL OPEB COST

SECTION 2.1
APPENDIX C
WORKPAPER OPEB
PAGE 16 OF 23

	Interstate Amount	Percent Common Line	Common Line Amount	Percent Traffic Sensitive	Traffic Sensitive Amount	Percent Special Access	Special Access Amount	Percent Inter- exchange	Inter- exchange Amount
6110 Network Support	14,693	19.1760%	2,818	64.2300%	9,437	16.5940%	2,438		0
6120 Gen'l Support	62,784	19.1760%	12,040	64.2300%	40,326	16.5940%	10,418		0
6210 & 6220 CO Switching & Operator Systems	259,631	20.4458%	53,084	69.0401%	179,249	10.5141%	27,298		0
6230 CO Transmission	184,538	20.4458%	37,730	69.0401%	127,405	10.5141%	19,403		0
6310 Info Orig/Term	116,107	99.8530%	115,936	0.0000%	0	0.1470%	171		0
6410 Cable & Wire Facilities	701,121	77.8719%	545,976	13.0274%	91,338	9.1007%	63,807		0
6510 Other Prop Plant & Equip Exp	0	53.5211%	0	38.0282%	0	8.4507%	0		0
6530 Network Operations	691,171	53.1218%	367,163	37.3089%	257,868	9.5693%	66,140		0
6560 Depreciation Exp	32,628	45.8152%	14,948	44.1092%	14,392	10.0756%	3,287		0
6610 Marketing	332,092	49.9916%	166,018	39.8381%	132,299	10.1703%	33,775		0
6621 & 6622 Operator Services	309,449	0.0000%	0	100.0000%	309,449	0.0000%	0		0
6623.1 Customer Accounting	9,667	91.0326%	8,800	7.0652%	683	1.9022%	184		0
6623.2 Business Office	201,082	51.5354%	103,629	24.8819%	50,033	23.5827%	47,421		0
6623.3 - .8 Customer Services -- Other	17,283	29.7619%	5,144	59.5238%	10,288	10.7143%	1,852		0
6710 Exec & Planning	37,407	43.3255%	16,207	45.7447%	17,112	10.9299%	4,089		0
6720 Gen'l & Admin	(1,740,985)	43.3255%	(754,290)	45.7447%	(796,408)	10.9299%	(190,288)		0
Total Operating Expense	1,228,670		695,202		443,472		89,994		0
RATE BASE									
TPIS	435,552	50.0740%	218,098	39.9031%	173,799	10.0229%	43,655		0
Accumulated Depreciation	16,264	49.4233%	8,038	40.5348%	6,593	10.0420%	1,633		0
OPEB Liability	1,022,781	50.3356%	514,823	39.7315%	406,366	9.9329%	101,592		0
Accumulated Deferred Taxes	(249,899)	50.3356%	(125,788)	39.7315%	(99,289)	9.9329%	(24,822)		0
Net Rate Base	(353,594)		(178,974)		(139,871)		(34,748)		0
Gross Receipts and Income Tax Calculation									
Rate Base	(353,594)		(178,974)		(139,871)		(34,748)		0
Rate of Return	11.25%		11.25%		11.25%		11.25%		11.25%
Return on Rate Base	(39,779)		(20,135)		(15,736)		(3,909)		0
Revenue Conversion (Rate Base)	60.720%		(65,512)		(25,916)		(6,438)		0
Gross Receipt Tax (Rate Base)	0.00%		0		0		0		0
State Income Tax (Rate Base)	8.00%		(5,241)		(2,073)		(515)		0
Federal Income Tax (Rate Base)	34.00%		(20,492)		(8,107)		(2,014)		0
Expenses	1,228,670		695,202		443,472		89,994		0
Earning Effect (Exp)	60.720%		746,048		269,276		54,644		0
Revenue Conversion (Exp)	60.720%		1,228,670		443,472		89,994		0
Gross Receipt Tax (Exp)	0.00%		0		0		0		0
State Income Tax (Exp)	8.00%		98,294		35,478		7,200		0
Federal Income Tax (Exp)	34.00%		384,328		138,718		28,150		0
Total Revenue Requirement	1,163,158		662,042		417,556		83,556		0
Times Godwins	84.80%		986,355		354,087		70,856		0
New TS % of TS + SA Baskets	39.14%				New Traffic Sensitive Amount		Trunking Amount		
TK % of TS + SA Baskets	60.86%								
Recasted Revenue Requirement	986,355		561,412		166,310		258,633		0

SECTION 2.1
 APPENDIX C
 WORKPAPER OPEB
 PAGE 17 OF 23

STATE OF RHODE ISLAND
 EXG-1 FOR SFAS 106
 EFFECT OF TOTAL OPEB

REVENUE EFFECT	Interstate	Common Line	Traffic Sensitive	Special Access	Inter- exchange
Depreciation Expense	17,102	6,755	8,914	1,433	0
Expense Less Depreciation	1,000,864	504,150	410,979	85,691	0
Taxes Less FIT	61,121	30,816	25,068	5,260	0
Net Return	(39,868)	(18,558)	(17,933)	(3,117)	0
FIT	(20,538)	(9,560)	(9,238)	(1,606)	0
Uncollectible Revenue & Other Adj	0	0	0	0	0
Revenue Effect	1,018,681	513,602	417,790	87,661	0
Revenue Effect Adjusted by Godwins Factor of 84.8%	864,157	435,535	354,286	74,336	0
			New Traffic Sensitive	Trunking	
Recasted Revenue Effect	864,157	435,535	170,915	257,707	0
Additional Annual Revenue Effect	623,837	276,071	137,027	210,739	0
Make-whole Revenue Effect	623,837	276,071	137,027	210,739	0
Net Revenue Effect	1,247,674	552,141	274,055	421,478	0
RATE BASE					
Total Plant in Service	235,406	109,251	107,097	19,057	0
Other Rate Base Items	(776,596)	(360,562)	(351,317)	(61,635)	0
Depreciation Reserve	8,221	4,196	3,414	612	0
Accum. Deferred Inc. Tax	(195,027)	(90,548)	(88,226)	(15,478)	0
Net Rate Base	(354,384)	(164,959)	(159,407)	(27,711)	0

STATE OF RHODE ISLAND
YEAR 1993

SECTION 2.1
APPENDIX C
WORKPAPER OPEB
PAGE 18 OF 23

SFAS 106 Cost (Total OPEB) 11,554,303
Pay As You Go 5,387,591
Other Funding
Liability At Year End 6,166,712
Wage % 8.079%
PAYG % 8.02%

	Benefits Clearing Factor	SFAS 106 Benefits Cleared	Pay As You Go	Rhode Island Incremental Cost	Percent Nonreg	Nonreg Amount Separations	Amount Subject to Separations	Interstate Access Factor	Interstate Access Amount
6110 Network Support	0.2400%	27,730		27,730	1.3575%	376	27,354	25.2186%	6,898
6120 Gen'l Support	1.4600%	168,693		168,693	2.3095%	3,896	164,797	25.2186%	41,559
6210 & 6220 CO Switching & Operator Systems	5.4800%	633,176		633,176	1.1819%	7,484	625,692	29.7497%	186,142
6230 CO Transmission	6.9500%	803,024		803,024	0.0000%	0	803,024	29.7497%	238,897
6310 Info Orig/Term	5.4600%	630,865		630,865	51.5315%	325,094	305,771	25.4513%	77,823
6410 Cable & Wire Facilities	17.7400%	2,049,733		2,049,733	0.0000%	0	2,049,733	27.7409%	568,614
6510 Other Prop Plant & Equip Exp	0.0200%	2,311		2,311	12.4561%	288	2,023	28.2565%	572
6530 Network Operations	13.6500%	1,577,162		1,577,162	2.7681%	43,657	1,533,505	28.4438%	436,187
6560 Depreciation Exp	0.0000%	0		58,894	0.3006%	177	58,717	29.1259%	17,102
6610 Marketing	6.7300%	777,605		777,605	3.0740%	23,904	753,701	26.9123%	202,838
6621 & 6622 Operator Services	7.1900%	830,754		830,754	0.0000%	0	830,754	15.7611%	130,936
6623.1 Customer Accounting	1.0308%	119,097		119,097	1.9547%	2,328	116,769	5.6596%	6,609
6623.2 Business Office	11.1272%	1,285,669		1,285,669	2.9036%	37,331	1,248,338	8.8261%	110,180
6623.3 - .8 Customer Services -- Other	0.8321%	96,138		96,138	0.1626%	156	95,982	10.9208%	10,482
6710 Exec & Planning	0.8200%	94,745		94,745	2.3596%	2,236	92,510	23.1602%	21,425
6720 Gen'l & Admin	6.8100%	786,848	5,387,591	(4,600,743)	2.5567%	(117,627)	(4,483,116)	23.1602%	(1,038,299)
Total Operating Expense	85.5400%	9,883,551	5,387,591	4,554,854		329,299	4,225,554		1,017,966
				Average Amount					
RATE BASE	TPIS	14.4600%	1,670,752	835,376	0.2559%	2,138	833,238	28.2519%	235,406
	Accumulated Depreciation			29,447	0.0905%	27	29,420	27.9449%	8,221
	OPEB Liability			3,083,356	0.0000%	0	3,083,356	25.1867%	776,596
	Accumulated Deferred Taxes			(774,325)	0.0000%	0	(774,325)	25.1867%	(195,027)
	Net Rate Base			(1,503,102)		2,111	(1,505,213)		(354,384)

STATE OF RHODE ISLAND
SFAS No. 106 Incremental Cost
TOTAL OPEB COST

	Interstate Amount	Percent Common Line	Common Line Amount	Percent Traffic Sensitive	Traffic Sensitive Amount	Percent Special Access	Special Access Amount	Percent Inter- exchange	Inter- exchange Amount
6110 Network Support	6,898	25.9864%	1,793	62.6544%	4,322	11.3591%	784		0
6120 Gen'l Support	41,559	25.9864%	10,800	62.6544%	26,039	11.3591%	4,721		0
6210 & 6220 CO Switching & Operator Systems	186,142	16.8973%	31,453	75.0893%	139,772	8.0134%	14,916		0
6230 CO Transmission	238,897	16.8973%	40,367	75.0893%	179,386	8.0134%	19,144		0
6310 Info Orig/Term	77,823	99.8818%	77,731	0.0000%	0	0.1182%	92		0
6410 Cable & Wire Facilities	568,614	71.8459%	408,526	18.5859%	105,682	9.5682%	54,406		0
6510 Other Prop Plant & Equip Exp	572	47.5177%	272	44.6809%	255	0.0000%	0		0
6530 Network Operations	436,187	48.2566%	210,489	43.8066%	191,079	7.9368%	34,619		0
6560 Depreciation Exp	17,102	39.4968%	6,755	52.1233%	8,914	8.3799%	1,433		0
6610 Marketing	202,838	46.4085%	94,134	45.3704%	92,029	8.2211%	16,676		0
6621 & 6622 Operator Services	130,936	0.0000%	0	100.0000%	130,936	0.0000%	0		0
6623.1 Customer Accounting	6,609	82.8996%	5,479	14.4981%	958	2.6022%	172		0
6623.2 Business Office	110,180	43.9754%	48,452	25.4797%	28,073	30.5449%	33,654		0
6623.3 - .8 Customer Services -- Other	10,482	28.4314%	2,980	57.8431%	6,063	13.7255%	1,439		0
6710 Exec & Planning	21,425	42.1218%	9,025	48.5425%	10,400	9.3356%	2,000		0
6720 Gen'l & Admin	(1,038,299)	42.1218%	(437,350)	48.5425%	(504,016)	9.3356%	(96,931)		0
Total Operating Expense	1,017,966		510,904		419,893		87,124		0
RATE BASE									
TPIS	235,406	46.4097%	109,251	45.4948%	107,097	8.0955%	19,057		0
Accumulated Depreciation	8,221	51.0311%	4,196	41.5262%	3,414	7.4427%	612		0
OPEB Liability	776,596	46.4286%	360,562	45.2381%	351,317	7.9365%	61,635		0
Accumulated Deferred Taxes	(195,027)	46.4286%	(90,548)	45.2381%	(88,226)	7.9365%	(15,478)		0
Net Rate Base	(354,384)		(164,959)		(159,407)		(27,711)		0
Gross Receipts and Income Tax Calculation									
Rate Base	(354,384)		(164,959)		(159,407)		(27,711)		0
Rate of Return	11.25%		11.25%		11.25%		11.25%		11.25%
Return on Rate Base	(39,868)		(18,558)		(17,933)		(3,117)		0
Revenue Conversion (Rate Base)	62.040%	(64,262)	(29,913)		(28,906)		(5,024)		0
Gross Receipt Tax (Rate Base)	6.00%	(3,856)	(1,795)		(1,734)		(301)		0
State Income Tax (Rate Base)	0.00%	0	0		0		0		0
Federal Income Tax (Rate Base)	34.00%	(20,538)	(9,560)		(9,238)		(1,606)		0
Expenses	1,017,966		510,904		419,893		87,124		0
Earning Effect (Exp)	66.000%	671,857	337,197		277,130		57,502		0
Revenue Conversion (Exp)	62.040%	1,082,942	543,515		446,696		92,685		0
Gross Receipt Tax (Exp)	6.00%	64,977	32,611		26,802		5,561		0
State Income Tax (Exp)	0.00%	0	0		0		0		0
Federal Income Tax (Exp)	34.00%	346,108	173,707		142,764		29,622		0
Total Revenue Requirement	1,018,680		513,602		417,790		87,661		0
Times Godwins	84.80%	864,157	435,534		354,286		74,337		0
New TS % of TS + SA Baskets	39.88%				New Traffic		Trunking		
TK % of TS + SA Baskets	60.12%				Sensitive		Amount		
					Amount				
Recasted Revenue Requirement	864,157		435,534		170,915		257,707		0

SECTION 2.1
 APPENDIX C
 WORKPAPER OPEB
 PAGE 20 OF 23

STATE OF VERMONT
 EXG-1 FOR SFAS 106
 EFFECT OF TOTAL OPEB

REVENUE EFFECT	Interstate	Common Line	Traffic Sensitive	Special Access	Inter- exchange
Depreciation Expense	19,257	7,935	9,612	1,711	0
Expense Less Depreciation	515,944	277,566	201,344	37,034	0
Taxes Less FIT	(2,393)	(1,163)	(1,050)	(180)	0
Net Return	(17,565)	(8,535)	(7,709)	(1,321)	0
FIT	(9,049)	(4,397)	(3,971)	(681)	0
Uncollectible Revenue & Other Adj	0	0	0	0	0
Revenue Effect	506,195	271,406	198,226	36,563	0
Revenue Effect Adjusted by Godwins Factor of 84.8%	429,253	230,152	168,095	31,006	0
			New Traffic Sensitive	Trunking	
Recasted Revenue Effect	429,253	230,152	76,582	122,519	0
Additional Annual Revenue Effect	377,487	162,619	82,964	131,904	0
Make-whole Revenue Effect	377,487	162,619	82,964	131,904	0
Net Revenue Effect	754,975	325,239	165,927	263,809	0
RATE BASE					
Total Plant in Service	233,724	108,432	104,500	20,793	0
Other Rate Base Items	(494,777)	(233,645)	(219,901)	(41,231)	0
Depreciation Reserve	9,450	4,662	3,954	834	0
Accum. Deferred Inc. Tax	(114,367)	(54,007)	(50,830)	(9,531)	0
Net Rate Base	(156,136)	(75,868)	(68,526)	(11,742)	0

STATE OF VERMONT
YEAR 1993

SECTION 2.1
APPENDIX C
WORKPAPER OPEB
PAGE 21 OF 23

SFAS 106 Cost (Total OPEB) 6,498,073
Pay As You Go 3,164,848
Other Funding
Liability At Year End 3,333,226
Wage % 4.544%
PAYG % 4.71%

	Benefits Clearing Factor	SFAS 106 Benefits Cleared	Pay As You Go	Vermont Incremental Cost	Percent Nonreg	Nonreg Amount	Amount Subject to Separations	Interstate Access Factor	Interstate Access Amount
6110 Network Support	0.2600%	16,895		16,895	1.3011%	220	16,675	29.6936%	4,951
6120 Gen'l Support	1.1500%	74,728		74,728	1.2122%	906	73,822	29.6936%	21,920
6210 & 6220 CO Switching & Operator Systems	6.7700%	439,920		439,920	0.2883%	1,268	438,651	34.4821%	151,256
6230 CO Transmission	3.0700%	199,491		199,491	0.0000%	0	199,491	34.4821%	68,789
6310 Info Orig/Term	4.0500%	263,172		263,172	46.2857%	121,811	141,361	27.3556%	38,670
6410 Cable & Wire Facilities	16.0300%	1,041,641		1,041,641	0.0000%	0	1,041,641	31.2481%	325,493
6510 Other Prop Plant & Equip Exp	-0.0200%	(1,300)		(1,300)	0.7299%	(9)	(1,290)	32.5926%	(420)
6530 Network Operations	12.0400%	782,368		782,368	2.0302%	15,884	766,484	32.5698%	249,642
6560 Depreciation Exp	0.0000%	0		57,423	0.1466%	84	57,339	33.5853%	19,257
6610 Marketing	7.2000%	467,861		467,861	2.4684%	11,549	456,313	28.3978%	129,583
6621 & 6622 Operator Services	5.5900%	363,242		363,242	0.0000%	0	363,242	30.8921%	112,213
6623.1 Customer Accounting	1.2357%	80,295		80,295	1.8033%	1,448	78,847	5.1885%	4,091
6623.2 Business Office	11.5447%	750,186		750,186	1.9529%	14,650	735,536	13.0544%	96,020
6623.3 - .8 Customer Services -- Other	0.5296%	34,412		34,412	0.2025%	70	34,343	14.3805%	4,939
6710 Exec & Planning	1.0500%	68,230		68,230	1.6529%	1,128	67,102	26.8665%	18,028
6720 Gen'l & Admin	7.3800%	479,558	3,164,848	(2,685,290)	1.6928%	(45,457)	(2,639,833)	26.8665%	(709,231)
Total Operating Expense	77.8800%	5,060,700	3,164,848	1,953,275		123,551	1,829,724		535,202
				Average					
				Amount					
RATE BASE	22.1200%	1,437,374		718,687	0.1798%	1,292	717,395	32.5796%	233,724
TPIS				28,712	0.0722%	21	28,691	32.9374%	9,450
Accumulated Depreciation				1,666,613	0.0000%	0	1,666,613	29.6876%	494,777
OPEB Liability				(385,235)	0.0000%	0	(385,235)	29.6876%	(114,367)
Accumulated Deferred Taxes				(591,403)		1,271	(592,674)		(156,136)
Net Rate Base									

STATE OF VERMONT
SFAS No. 106 Incremental Cost
TOTAL OPEB COST

SECTION 2.1
APPENDIX C
WORKPAPER OPEB
PAGE 22 OF 23

	Interstate Amount	Percent Common Line	Common Line Amount	Percent Traffic Sensitive	Traffic Sensitive Amount	Percent Special Access	Special Access Amount	Percent Inter- exchange	Inter- exchange Amount
6110 Network Support	4,951	16.4517%	815	69.5406%	3,443	14.0077%	694		0
6120 Gen'l Support	21,920	16.4517%	3,606	69.5406%	15,244	14.0077%	3,071		0
6210 & 6220 CO Switching & Operator Systems	151,256	17.8656%	27,023	72.9363%	110,321	9.1981%	13,913		0
6230 CO Transmission	68,789	17.8656%	12,290	72.9363%	50,172	9.1981%	6,327		0
6310 Info Orig/Term	38,670	100.0000%	38,670	0.0000%	0	0.0000%	0		0
6410 Cable & Wire Facilities	325,493	73.9519%	240,708	17.7623%	57,815	8.2858%	26,970		0
6510 Other Prop Plant & Equip Exp	(420)	47.7273%	(201)	43.1818%	(182)	9.0909%	(38)		0
6530 Network Operations	249,642	48.7590%	121,723	42.6089%	106,370	8.6321%	21,549		0
6560 Depreciation Exp	19,257	41.2037%	7,935	49.9106%	9,612	8.8857%	1,711		0
6610 Marketing	129,583	46.4211%	60,154	44.6316%	57,835	8.9474%	11,594		0
6621 & 6622 Operator Services	112,213	0.0000%	0	100.0000%	112,213	0.0000%	0		0
6623.1 Customer Accounting	4,091	90.7104%	3,711	7.6503%	313	1.6393%	67		0
6623.2 Business Office	96,020	49.0358%	47,084	31.1295%	29,890	19.8347%	19,045		0
6623.3 - .8 Customer Services -- Other	4,939	29.2308%	1,444	61.5385%	3,039	9.2308%	456		0
6710 Exec & Planning	18,028	40.4310%	7,289	49.9317%	9,002	9.6373%	1,737		0
6720 Gen'l & Admin	(709,231)	40.4310%	(286,749)	49.9317%	(354,131)	9.6373%	(68,351)		0
Total Operating Expense	535,202		285,501		210,956		38,745		0
RATE BASE									
TPIS	233,724	46.3930%	108,432	44.7108%	104,500	8.8962%	20,793		0
Accumulated Depreciation	9,450	49.3323%	4,662	41.8464%	3,954	8.8213%	834		0
OPEB Liability	494,777	47.2222%	233,645	44.4444%	219,901	8.3333%	41,231		0
Accumulated Deferred Taxes	(114,367)	47.2222%	(54,007)	44.4444%	(50,830)	8.3333%	(9,531)		0
Net Rate Base	(156,136)		(75,868)		(68,526)		(11,742)		0
Gross Receipts and Income Tax Calculation									
Rate Base	(156,136)		(75,868)		(68,526)		(11,742)		0
Rate of Return	11.25%		11.25%		11.25%		11.25%		11.25%
Return on Rate Base	(17,565)		(8,535)		(7,709)		(1,321)		0
Revenue Conversion (Rate Base)	60.555%	(29,007)	(14,095)		(12,731)		(2,181)		0
Gross Receipt Tax (Rate Base)	0.00%	0	0		0		0		0
State Income Tax (Rate Base)	8.25%	(2,393)	(1,163)		(1,050)		(180)		0
Federal Income Tax (Rate Base)	34.00%	(9,049)	(4,397)		(3,971)		(681)		0
Expenses		535,202	285,501		210,956		38,745		0
Earning Effect (Exp)	60.555%	324,091	172,885		127,744		23,462		0
Revenue Conversion (Exp)	60.555%	535,202	285,501		210,956		38,745		0
Gross Receipt Tax (Exp)	0.00%	0	0		0		0		0
State Income Tax (Exp)	8.25%	44,154	23,554		17,404		3,196		0
Federal Income Tax (Exp)	34.00%	166,956	89,062		65,808		12,087		0
Total Revenue Requirement		506,195	271,406		198,225		36,564		0
Times Godwins	84.80%	429,253	230,152		168,094		31,007		0
New TS % of TS + SA Baskets	38.46%				New Traffic Sensitive Amount		Trunking Amount		
TK % of TS + SA Baskets	61.54%								
Recasted Revenue Requirement		429,253	230,152		76,582		122,519		0

Calculation of Full SFAS 106 Accrual Exogenous Cost Adjustment

SECTION 2.1
APPENDIX C
WORKPAPER OPEB
PAGE 23 OF 23

NYNEX						
Line Item	Source	Interstate	Common Line	Traffic Sensitive	Trunking	Interexchange
1. TBO Retirees & Interest Annual Revenue Effect	1994 Annual Filing WP OPEBREV	8,065,702	5,632,360	743,762	1,573,398	116,182
2. Total SFAS-106 Revenue Effect	WP OPEB, PG 1 OF 23	29,045,345	14,559,404	4,554,943	9,683,198	247,800
3. Difference Between Total SFAS-106 Revenue Effect and TBO Retirees & Interest Annual Revenue Effect	Ln 2 - Ln 1	20,979,643	8,927,044	3,811,181	8,109,800	131,618
NEW YORK						
		Interstate	Common Line	Traffic Sensitive	Trunking	Interexchange
1. TBO Retirees & Interest Annual Revenue Effect	1994 Annual Filing WP OPEBREV	5,966,847	4,067,611	571,438	1,211,616	116,182
2. Total SFAS-106 Revenue Effect	WP OPEB, PG 2 OF 23	19,648,979	9,901,539	3,044,473	6,455,167	247,800
3. Difference Between Total SFAS-106 Revenue Effect and TBO Retirees & Interest Annual Revenue Effect	Ln 2 - Ln 1	13,682,132	5,833,928	2,473,035	5,243,551	131,618
NEW ENGLAND						
		Interstate	Common Line	Traffic Sensitive	Trunking	Interexchange
1. TBO Retirees & Interest Annual Revenue Effect	1994 Annual Filing WP OPEBREV	2,098,855	1,564,749	172,324	361,782	0
2. Total SFAS-106 Revenue Effect	WP OPEB, PG 5 OF 23	9,396,366	4,657,865	1,510,470	3,228,031	0
3. Difference Between Total SFAS-106 Revenue Effect and TBO Retirees & Interest Annual Revenue Effect	Ln 2 - Ln 1	7,297,511	3,093,116	1,338,146	2,866,249	0

Appendix H.1

United States Telephone Association

Perspectives on Analysis of Impact of
SFAS 106 on GNP-PI

August 14, 1995

Introduction

In order to assist in responding to the FCC's recent Order Designating Issues for Investigation, the United States Telephone Association ("USTA") has asked us to provide a summary of our prior analysis of the impact of SFAS 106 on GNP-PI and to provide an opinion as to the extent to which that analysis should still be considered valid now that three years have passed since the original study was issued and SFAS 106 has now been adopted by all companies for whom it was required.

As discussed in this material, we believe that the actual impact of SFAS 106 on GNP-PI was not materially different than that estimated in our original analysis. Further, we believe that the actual portion of the Price Cap LEC's additional cost due to the adoption of FAS 106 in 1993 that recovered through the GNP-PI was not materially different than that reported in our original analysis.

The rest of this material reviews our prior analysis and discusses this conclusion in more detail.

Determination of Impact of SFAS 106 on GNP-PI

In our original study ("Analysis of Impact of FAS 106 Costs on GNP-PI") issued in February 1992, we provided an analysis of what percentage of the additional costs incurred by Local Exchange Carriers subject to Federal Price Cap regulations (hereinafter referred to as "Price Cap LECs") as a result of the Financial Accounting Standards Board's Statement No. 106 (SFAS 106) would be reflected in the GNP Price Index (GNP-PI) and what percentage would not be so reflected.

That study found that ultimately the increase in GNP-PI caused by SFAS 106 (0.0124%) would provide for recovery of only 0.7% of the additional costs incurred by Price Cap LECs. This result was produced by performing both an actuarial analysis and a macroeconomic analysis. The actuarial and macroeconomic analyses were performed in a very conservative manner to ensure that we did not understate the effect of SFAS 106 on the GNP-PI.

In addition to developing this basic result, the study included a sensitivity analysis to test the robustness of the result. That sensitivity analysis lent further support to our finding that any resulting increase in the GNP-PI would allow the Price Cap LEC's to recover only a very small fraction of their additional costs due to SFAS 106.

Subsequent to the submission of the study, we were asked by the FCC staff to extend our analysis in two ways. First, we were asked to develop a "best estimate" determination of the impact of SFAS 106 on the GNP-PI; secondly, we were asked to extend our sensitivity analysis to include every possible combination of parameter values regardless of how unreasonable or internally inconsistent those combinations might be. We performed the additional analysis and reported the results in a supplemental report issued in March 1993. In that report, we found that on a "best estimate" basis, only 0.3% of the Price Cap LEC's additional costs due to SFAS 106 would be recovered as a result of increases in the GNP-PI. As might be expected, for some of the parameter combinations examined in the extended sensitivity analysis, the percentage of additional SFAS 106 costs recovered through the GNP-PI was higher than in the original sensitivity analysis. However, even these higher values indicated that only a small fraction of additional SFAS 106 costs would be recovered through the GNP-PI. Moreover, these higher values resulted only from extremely unlikely combinations of parameter values. For example, the ten highest values were obtained only with a price elasticity of demand equal to 3.0, and with a direct impact of SFAS 106 on labor costs in sector 2 of 4.5%. As discussed in the March 1993 Supplemental Report, price elasticities of demand in sectors 1 and 2 are almost surely less than 1.0, and our baseline value of 1.5 for this elasticity was chosen to guard against understating the impact of SFAS 106 on the GNP-PI; a value of 3.0 for this elasticity is too high to be taken seriously. Also the value of 4.5% for the direct impact of SFAS 106 on labor costs in sector 2 is almost double the best estimate of 2.5% and is less plausible than the baseline estimate of 3.0%.

We want to emphasize that the original study was done in a very conservative manner and the baseline result of that study (0.7% of the Price Cap LEC's additional costs recovered through GNP-PI increases) is more than twice the value produced under a "best estimate" approach. Pages 34-38 of the original study provide a detailed discussion of the conservative nature of the analysis, including a discussion of the rationale behind the choice of each actuarial and macroeconomic parameter utilized in the study.

Additional Macroeconomic Effect of SFAS 106

Above and beyond the GNP-PI effect reported above, when the original study was done, our macroeconomic model indicated that, in response to the impact of SFAS 106, the wage rate in the national economy will, over time, reduce in relative terms by 0.93% (i.e., relative to what it would have been in the absence of SFAS 106). To the extent that a Price Cap LEC could also benefit from a relative reduction in its wage rate, this would help offset its increase in costs due to SFAS 106. If a Price Cap LEC's were able to achieve the full reduction of 0.93%, it would finance 14.5% of its additional SFAS 106 costs. As discussed in our report, this wage rate reduction reflects the **ultimate** effect of SFAS 106 after all macroeconomic variables have adjusted to their new equilibrium levels. This macroeconomic adjustment is unlikely to be completed within a year, and may indeed take a few years to complete. Thus, during 1993, the fraction of additional SFAS 106 costs financed by a relative reduction in wages is likely to be less than 14.5% — perhaps substantially less.

Thus, even after complete macroeconomic adjustment has taken place, the combined effect of the impact of SFAS 106 on the GNP-PI and on the wage rate would still leave 84.8% (i.e., 100% minus 0.7% minus 14.5%) of the Price Cap LEC's additional SFAS 106 costs unrecovered. The original study also included sensitivity analysis on how much of the Price Cap LEC's additional costs could potentially be recovered through the combination of increases in GNP-PI and this wage rate effect. That analysis lent additional support to our finding that 15.2% was a reasonable estimate of the fraction of additional costs that would be recovered through the combination of both sources.

Again, in response to the FCC staff requests, the analysis of the impact of the combination of GNP-PI increases and potential wage rate reductions was extended to produce a "best estimate" impact and a sensitivity analysis incorporating all combinations of actuarial and macroeconomic parameters. On a best estimate basis, we determined that 12.7% of the Price Cap LEC's additional costs would be recovered through the combination of GNP-PI increases and wage rate reductions; the additional sensitivity analysis again confirmed our finding that most of the Price Cap LEC's additional costs would not be recovered through the GNP-PI and other macroeconomic effects.

Purpose of Sensitivity Analysis

As noted above, our original report (February 1992) contained a sensitivity analysis. At the request of the FCC staff our March 1993 Supplemental Report contained additional sensitivity analysis (while this sensitivity analysis broadened the range of parameter values considered, many of these additional combinations of parameters were, as explained below, implausible.) In order to interpret and apply the results of these sensitivity analyses, it is important to keep in mind the purpose of these analyses and the conservative philosophy underlying their implementation. We have already discussed that our conservative approach produced a baseline calculation of the impact of SFAS 106 on GNP-PI that is larger than a calculation based on our best estimates. The comprehensive sensitivity analysis provides an additional degree of comfort that the baseline results are, in fact, conservative.

The primary goal of the sensitivity analysis was to explore the robustness of our findings and to illustrate the quantitative impact on our findings of various changes in the numerical values of the inputs. *The ranges of values used in the sensitivity analysis were not intended to represent the ranges of plausible parameter values.* Instead, our conservative approach led us to choose ranges of values so wide they include all plausible values, and then some. To guard against the risk of omitting some plausible values, we intentionally used ranges of values so wide they include implausible values as well. As a consequence, some of the extreme values of the calculated effect of SFAS 106 on the GNP-PI simply reflect implausible values for inputs.

As discussed earlier, our March 1993 Supplemental Report contains a best estimate of the impact of SFAS 106, as well as a conservative baseline estimate, and a comprehensive sensitivity analysis. Our best estimate (p. 14) is that only 0.3% of the increase in the Price Cap LECs' costs due to SFAS 106 are recovered through the GNP-PI. This finding illustrates that our baseline calculation of 0.7% is indeed conservative. The comprehensive sensitivity analysis, which included input values that are clearly implausible, produced some results for the impact on GNP-PI that are considerably larger. The sensitivity analysis considered three different values of each of four different inputs to the macroeconomic model, two different values of one input, and four different values of one input,¹ and computed results using all 648 (= 3 x 3 x 3 x 3 x 2 x 4) combinations of these values.

Finally, note that using two or more implausible values together heightens the degree of implausibility. For example, suppose there is only one in a hundred chance that the price elasticity of demand is as high as 3.0 and there is only one in a hundred chance that the direct impact of SFAS 106 on labor cost in sector 2 is as high as 4.5%. Then there is only one chance in 10,000 that both values together are appropriate. To reiterate, our sensitivity analysis

¹ Three values of the direct impact of SFAS 106 on labor costs in sector 2, 3 values of labor share in total cost in sector 1; 3 values of labor share in total cost in sector 2; 3 values of the fraction of labor employed in sector 2; 2 values of the price elasticity of demand; 4 values of the labor supply elasticity.

presents the results for all combinations of parameter values, including many combinations too implausible to merit any attention.

Validity of Original Study

Based on the discussion above, it is clear that our original study was done in a conservative manner, most likely overestimating the impact of SFAS 106 on the GNP-PI. In addition, comprehensive sensitivity analysis was performed to confirm the robustness of the result against the possibility of error in estimating one or more of the economic or actuarial parameters used in the study.

Three years have passed since the original study was issued. During that time, all companies providing postretirement welfare benefits adopted SFAS 106. Based on what we now know, we believe our estimate of the impact of SFAS 106 on the GNP-PI² and of the percentage recovery of the Price Cap LEC's additional costs incurred by their adoption of SFAS 106 is still reasonable. Furthermore, the conservatism inherent in our original study gives us confidence that the actual recovery of additional SFAS 106 costs through the GNP-PI when SFAS 106 became mandatorily effective in 1993 was not materially greater than the 0.7% in our baseline results.

Respectfully submitted,



Peter J. Neuwirth, F.S.A., M.A.A.A.



Andrew B. Abel, Ph.D.

- 2 Since our original report was issued, the measure used in the FCC's price cap methodology was changed from GNP-PI to GDP-PI. This change would have no impact on the results of our study. Not only does the formal mathematical model ignore any distinction between GNP-PI and GDP-PI, the actual data (presented in Table I) show only a minuscule difference between these two measures of the overall price level.

price index	1988	1989	1990	1991	1992	1993
GDP-PI	104.0	108.6	113.6	118.1	121.9	125.5
GNP-PI	104.0	108.6	113.6	118.1	121.8	125.4

Source: Survey of Current Business, August 1994. GDP-PI is from Table 7.1, p. 32, line 5, price index, fixed 1987 weights; GNP-PI is from Table 7.3, p. 40, line 5, price index, fixed 1987 weights.

**UNITED STATES
TELEPHONE ASSOCIATION**

**Analysis of Impact of
FAS 106 Costs on GNP-PI**

February, 1992

The logo for Godwins, featuring the word "Godwins" in a stylized, cursive script font. The logo is positioned in the bottom right corner of the page, partially overlapping a decorative graphic of two parallel diagonal lines that run from the bottom left towards the top right.

Godwins

UNITED STATES TELEPHONE ASSOCIATION
Analysis of Impact of SFAS 106 Costs on GNP-PI

February 18, 1992

The logo for Godwins, featuring the name "Godwins" in a stylized, cursive script font. The text is positioned at the bottom right of the page, with two parallel diagonal lines extending upwards and to the right behind it.

Godwins

BACKGROUND

Godwins has been engaged by the United States Telephone Association to perform an analysis of the impact of SFAS 106 on the GNP-PI. In particular, Godwins was asked to determine the extent to which the price cap mechanism utilized by the FCC will reflect the impact of SFAS 106 and will enable Local Exchange Carriers to recover their increase in total operating costs incurred due to their adoption of the new accounting standard.

This report describes the results of that analysis and provides detailed documentation of the data, methods, and assumptions utilized in the study.

Respectfully submitted,



Peter J. Neuwirth, F.S.A., M.A.A.A.



Andrew B. Abel, Ph.D.

TABLE OF CONTENTS

	<u>Page</u>
I. Executive Summary	1
II. Development and Summary of Results	6
III. Detailed Description of Analysis	12
IV. Sensitivity of Results	34
V. Appendices	
A. Summary of Data	44
B. Methods and Assumptions	50
C. Documentation of Macroeconomic Model	54

I. EXECUTIVE SUMMARY

The purpose of this study is to determine what percentage of the additional costs incurred by Local Exchange Carriers subject to Federal Price Cap regulations (hereinafter referred to as "Price Cap LECs") as a result of the Financial Accounting Standards Board's Statement No. 106 (SFAS 106) will be reflected in the GNP Price Index (GNP-PI) and what percentage will not be so reflected.

This study finds that ultimately the increase in GNP-PI caused by SFAS 106 (.0124%) will provide for recovery of 0.7% of the additional costs incurred by Price Cap LECs. Other macroeconomic factors, principally an eventual adjustment of the national wage rate, account for recovery of an additional 14.5% of the additional costs incurred by Price Cap LECs, leaving 84.8% of these additional costs unrecovered.

This study is presented in two stages: an Actuarial Analysis followed by a Macroeconomic Analysis. The Actuarial Analysis uses demographic, economic and benefit program data collected from each Price Cap LEC to construct a composite company (hereinafter referred to as "TELCO") which reflects the characteristics of the industry as a whole. This analysis finds that the impact of SFAS 106 on the costs of the average employer in the economy is only 28.3% of the corresponding impact on TELCO. The Macroeconomic Analysis which analyzes the impact of SFAS 106 on the economy as a whole finds that only 2.3% of the average employer's additional costs resulting from SFAS 106 is passed through to the GNP-PI.

The table on the following page summarizes how the key results of the study are combined to derive the unrecovered proportion of the Price Cap LECs' SFAS 106 costs.

Effects of SFAS 106 on TELCO's Costs

(A) Impact on national average costs relative to TELCO's costs (from the Actuarial Analysis)	28.3%
(B) Proportion of increase in national average costs passed through to GNP-PI (from the Macroeconomic Analysis)	2.3%
(C) Proportion of TELCO's SFAS 106 cost increase reflected in GNP-PI (item (A) x item (B))	0.7%
(D) Proportion of TELCO's SFAS 106 cost increase offset by other macroeconomic adjustments, including the reduction of the wage rate (from the Macroeconomic Analysis)	14.5%
(E) Proportion of TELCO's SFAS 106 cost increase unrecovered (100% - item (C) - item (D))	84.8%

Actuarial Analysis

Even if one were to take a conservative approach and assume that all SFAS 106 costs were passed through directly and completely to price increases and thus into the GNP-PI, 100% of each Price Cap LEC's SFAS 106 costs would be reflected in the GNP-PI, only if the following were true:

- The benefits provided by the Price Cap LEC to its employees were at the same level as those provided to all other employees in the economy.
- The benefits provided by the Price Cap LEC gave rise to the same relative increase in total costs as for other employers when SFAS 106 is applied.

Because neither of the above statements is true, the percentage of each Price Cap LEC's SFAS 106 costs that will be reflected in the GNP-PI is far less than 100%. Indeed, we have determined that ignoring macroeconomic effects, only 28.3% of the additional costs incurred by the average Price Cap LEC due to SFAS 106 would be reflected in the GNP-PI. This result was derived by the following steps:

- By utilizing demographic, economic, and benefit program data collected from each Price Cap LEC we constructed a composite company (hereinafter referred to as "TELCO") which reflects the characteristics of the industry as a whole.
- By utilizing a data base of plan provisions for retiree medical plans sponsored by 830 private sector employers (covering 19 million employees) and our Benefit Level Indicator ("BLI") methodology, we determined how TELCO's program compared to a "national average" benefit program.
- We adjusted this comparative benefit analysis to reflect specific factors that would cause similar benefit programs to generate different levels of SFAS 106 cost. In particular, we adjusted for:
 - differences in demography (average age, service, etc.)
 - differences in withdrawal and retirement patterns
 - differences in the number and impact of current retirees
 - differences in the extent of current pre-funding of benefits conducted by TELCO and that of others.
- We then took account of the very large group of workers in the national economy who are not covered by any post-retirement program or are covered by a program that is not affected by the FASB's rules. Their employers will, by definition, incur no SFAS 106 cost for them.